

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6111

BILL NUMBER: HB 1359

DATE PREPARED: Jan 1, 1999

BILL AMENDED:

SUBJECT: Tax deduction for federal civil service retirement benefits.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(9,940,000)	(20,700,000)
State Expenditures			
Net Increase (Decrease)		(9,940,000)	(20,700,000)

Summary of Legislation: This bill provides an adjusted gross income tax deduction for the entire taxable portion of amounts received by an individual from a federal civil service annuity. The bill also repeals a provision that allows a deduction of up to \$2,000 received from a federal civil service annuity.

Effective Date: January 1, 2000.

Explanation of State Expenditures: The Department of Revenue will have some administrative expenses to accommodate this new tax deduction in order to revise tax forms, instructions and computer programs. These expenses should be covered under their existing budget.

Explanation of State Revenues: This bill provides an income tax deduction for all income received by a federal civil service annuity. Currently, there is a civil service deduction which is equal to the remainder of \$2,000 minus the total amount of social security benefits and railroad retirement benefits received by the individual. An individual must also be at least 62 years of age. Since most retirees receive social security benefits at 65 years of age, this limits the population who qualify for the current deduction. The new deduction would allow anyone who is receiving a civil service annuity to deduct the entire amount before calculating their adjusted gross income.

According to the Federal Office of Personnel Management, there were approximately 25,000 federal retirees and 8,900 federal surviving spouses who resided in Indiana in 1998 and received approximately \$550 M in civil service annuity income. Based on the 1995 Indiana Department of Revenue Income Tax Statistics approximately 5,600 taxpayers were able to claim the current deduction in the amount of \$10 M in income. This resulted in a revenue loss of approximately \$340,000.

This bill would allow the entire amount of civil service annuity to be deducted from income beginning January 1, 2000. Assuming a 4% growth rate for civil service annuity income and netting out the current allowable deduction, this new deduction would result in a revenue loss of \$9.9 M in individual income tax revenue in FY 2000 (6 months) and \$20.7 M in FY 2001. This assumes that all these taxpayers would adjust their quarterly payments or withholdings based on the effective date of this new deduction.

Individual Income Tax revenue is deposited in the General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties with a local option income tax will experience a decrease in their local option income tax revenue.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Ed Callicott, Federal Office of Personnel Management (202)606-1782; Department of Revenue, Individual Income Tax Statistics.